

Message Text

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EXDIS FOR ASSISTANT SEC ENDERS

FOLLOWING REPEAT CARACAS 10658 ACTION SECSTATE DTD 10 OCT

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C O N F I D E N T I A L CARACAS 10658

EXDIS

E.O. 11652: XGDS 3

TAGS: ENRG, PFOR, VE

SUBJECT: OIL REVERSION - CONTINENTAL OIL COMPANY

1. SUMMARY. CONTINENTAL WILL LEAVE VENEZUELA AND ITS FORMER CONCESSION WILL BE INTEGRATED INTO MARAVEN (SHELL). CONTINENTAL HAS HAD TWO VENTURES IN VENEZUELA WITH THE MOST RECENT BEING A CONCESSION THAT NETS 7,000 B/D FOR THE COMPANY AND ITS 6 PARTNERS. THE COMPANY TOOK THE POSITION FROM THE BEGINNING OF OIL REVERSION TALKS THAT TECHNICAL ASSISTANCE WAS NOT ESSENTIAL TO THE CONTINUED OPERATION OF BLOCK 575. THE GOV ACCEPTED THIS POSITION AND AUTHORIZED CONTINENTAL TO BEGIN INTEGRATION NEGOTIATIONS WITH POST-NATIONALIZATION OPERATOR. CONTINENTAL WILL RECEIVE NET BOOK VALUE COMPENSATION OF BS 4.5 MILLION, WITH THE POSSIBILITY OF SOME ADDITIONAL FOR THE CAPITALIZED COST OF AN EARLIER OFFSHORE EXPLORATION PROGRAM.

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CONTENTAL DOES NOT PLAN TO LIFT VENEZUELAN OIL AT THE BEGINNING OF

1976, BUT MAY DO SO LATER. THIS TELEGRAM IS BASED ON PROPRIETARY INFORMATION AND IS NOT FOR DISSEMINATION TO THIRD PARTIES. END SUMMARY

2. CONTINENTAL ACTIVITIES IN VENEZUELA - CONTINENTAL HAS HAD TWO VENTURES IN VENEZUELA. IN 1956/57 THE COMPANY HAD ENTERED INTO A ONE-FOURTH AND EQUAL PARTICIPATION WITH CITIES SERVICE, TEXACO AND MARATHON IN AN OFFSHORE EXPLORATION IN THE GULF OF PARIA. THIS PROJECT COST A TOTAL OF *152 MILLION (\$38MILLION EACH). SOME OIL WAS FOUND, BUT NOT ENOUGH TO JUSTIFY COMMERCIAL DEVELOPMENT. THE AREA WAS FORMALLY ABANDONED IN 1964/67. CONTINENTAL STILL CARRIES BS 9.5 MILLION OF CAPITALIZED COSTS OF THIS PROJECT ON ITS BOOKS.

3. IN 1956 CONTINENTAL OIL, TOGETHER WITH 6 PARTNERS, ACQUIRED BLOCK 575. CONTINENTAL IS THE CONCESSIONAIRE AND OPERATOR. THE CONCESSION IS LOCATED ON A LARGE FIELD (12 MILES IN LENGTH) AND IS UNITIZED WITH MENE GRANDE AND SHELL. CONTINENTAL'S PARTNERS ARE MURPHY OIL - 30 PERCENT; TENNECO - 15 PERCENT; ALLIED CHEMICAL - 15 PERCENT; PURE OIL - 6.2 PERCENT; PETROFINA (U.S.) - 1.9 PERCENT; AND PETROFINA (BELGIUM) - 1.9 PERCENT. CONTINENTAL CURRENTLY PRODUCES AN AVG 4,000 B/D, BUT UNDER THE UNITIZATION ARRANGEMENT, OBTAINS 7,000 B/D TOTAL. EACH PARTNER OF CONTINENTAL LIFTS AND MARKETS ITS OWN PERCENTAGE OF THE TOTAL. BLOCK 575 HAS PRODUCED AN ACCUMULATED 123 MILLION BARRELS OF 28 API CRUDE FOR CONTINENTAL FROM 19 PRODUCING WELLS. THE CONTINENTAL REPRESENTATIVE ESTIMATES THAT THE COMPANY HAS LIFTED ABOUT 2/3 OF THE AVAILABLE OIL IN ITS CONCESSION, AND THE WELLS ARE NOW BECOMING MARGINAL. THE COMPANY HAS ASSETS IN VEN. ONLY THE PRODUCTION FACILITIES IN ITS CONCESSION BLOCK.

4. REVERSION NEGOTIATIONS - THE COMPANY HAD ITS FIRST MEETING WITH THE GOV NEGOTIATORS ON JULY 17. THE SUBJECTS DISCUSSED WERE TECHNICAL ASSISTANCE, COMPENSATION AND THE COMPANY'S POST-NATIONALIZATION CRUDE OIL INTEREST. CONTINENTAL TOLD THE NEGOTIATORS IT DID NOT THINK TECHNICAL ASSISTANCE WAS NEEDED TO OPERATE ITS CONCESSION, AND THAT THE COMPANY DID NOT THEN KNOW WHETHER IT WAS READY TO OFFER SUCH ASSISTANCE. ACCORDING TO CONTINENTAL, JULIO CESAR ARREAZA PICKED UP THIS POINT AND DEVELOPED THE IDEA THAT THIS COULD BE ONE OF THE CONCESSIONAIRES TO DISAPPEAR AT THE TIME OF NATIONALIZATION AS A MOVE TO A MORE EFFICIENT INTEGRATION OF THE INDUSTRY. CONTINENTAL HEARD AFTER THE MEETING THAT IT WAS BEING QUOTED AS CONFIDENTIAL

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HAVING SAID IT WOULD NOT CONTINUE IN VENEZUELA AFTER NATIONALIZATION. THE CO MANAGER FELT COMPELLED TO CLARIFY TO THE MINES MINISTRY THAT WHAT IT REALLY SAID WAS THAT IT WAS PREPARED TO ABIDE BY WHATEVER DECISION WAS MADE, BUT THAT THE CO STILL BELIEVED TECHNICAL ASSISTANCE WAS NOT NECESSARY IN BLOCK 575.

5. A 2ND FORMAL MEETING WAS HELD ON SEPT 9, WHEN IT WAS CONFIRMED THAT THE GOV DID NOT PLAN TO HAVE A NATIONALIZED OPERATING UNIT FOR

THE CONTINENTAL CONCESSION. CONTINENTAL RECEIVED THE GREEN LIGHT TO BEGIN TALKS WITH OTHER COMPANIES FOR THE PURPOSES OF INTEGRATING ITS 15 VENEZUELAN EMPLOYEES INTO AN ONGOING OPERATION (IT ALSO HAS 3 US NATIONALS). IT WAS DECIDED THAT THE CARACAS OFFICE AND THE FIELD EMPLOYEES WOULD BE TAKEN OVER BY MARAVEN (SHELL), WHILE THE MARACAIBO OFFICE STAFF WOULD BE INCORPORATED INTO SUNOVEN (SUN OIL).

6. COMPANY COMPENSATION - CONTINENTAL HAS A NET BOOK VALUE OF BS. 4.5 MILLION THIS AMOUNT COULD BE AUGMENTED BY AS MUCH AS BS 6 MILLION IF THE GOV AGREES TO ALLOW THE CAPITALIZED COST OF THE GULF OF PARIA EXPLORATION VENTURE (PARA 2). AN INTERMINISTERIAL COMMITTEE (FINANCE AND MINES) IS CONSIDERING THE ITEM AND WILL REACH A DECISION SHORTLY. ALSO, WHEN THE COMPANY ACCEPTS THE COMPENSATION OFFER, IT WILL HAVE TO PLACE ABOUT BS 600,000 IN THE GUARANTY FUND. IT WILL DO THIS WITH COMPENSATION BONDS.

7. MINISTER HERNANDEZ TOLD CONTINETNAL ON OCT 7 THAT THE CO WILL BE PAID COMPENSATION IN NEGOTIABLE (BEARER) BONDS PAYING SIX PERCENT INTEREST. THE BONDS WILL NOT BE SUBJECT TO TAXES. THE BONDS WILL BE PAID IN 11 EQUAL INSTALLMENTS BEGINNING MAR 31, 1977. (SEE PARA 10.) CONTENTAL'S CONCESSION HAS ALREADY BEEN INSPECTED, AND THERE WAS TALK OF RELEASING THE COMPANY'S GUARANTY FUNDS IMMEDIATELY. HOWEVER, THE MINES MINISTRY LEGAL ADVISER FOUND THAT UNDER THE NATIONALIZATION LAWN SUCH FUNDS CANNOT BE RELEASED UNTIL AFTER JAN 1, 1976. CONTINENTAL HAS ABOUT BS 150,000 IN CASH IN THE GUARANTY FUND THAT IT WILL RECOVER AFTER JAN 1ST. WITH ITS INSTALL-ATIONS ALREADY INSPECTED, ALL THE COMPENSATION BONDS WILL BE AVAILABLE FOR REDEMPTION UNDER THE ABOVE SCHEDULE.

8. COMMENT. JAMES LUNG, THE CONTINENTAL MANAGER, TOLD THE PETROLEUM ATTACHE THAT HIS COMPANY DECIDED TO OPT OUT BECAUSE 1) WITH ITS ASSETS AND INVESTMENT BEING NATIONALIZED, CONTINENTAL WAS NOT PHILOSOPHICALLY INCLINED TO SEEK AN IMMEDIATE POST-NATIONALIZATION
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POSITION; AND 2) THE MINOR AMOUNT OF OIL THAT THE CO PRODUCES IN VENEZUELA IS SURPLUS TO ITS CURRENT NEEDS. LUNG SAID THAT ITS VENEZUELAN CRUDE IS NOT SUITABLE FOR ITS LUISIANA REFINERY, NOR FOR ITS CALIFORNIA OPERATION (ASPHALT). THE COMPANY INVARIABLY MUST SWAP WHAT IT PRODUCES HERE FOR AN APPROPRIATE CRUDE FROM OTHER COMPANIES. GIVEN THE NECESSITY TO SWAP THE VENEZUELA CRUDE AND THE DECLINING STATE OF THE RESERVOIR IN BLOCK 575, LING SAID THAT CONTINENTAL CAN AFFORD TO WALK FROM THIS SITUATION.

9. CONTINENTAL DID NOT REQUEST A CRUDE OIL QUOTA FOR THE BEGINNING OF 76. LUNG SAID THAT HE TOLD THE MINES MINISTER THAT THE COMPANY WILL TAKE ANOTHER LOOK AT THE SITUATION, PERHAPS DURING THE SECOND HALF OF 76. BY NOT LIFTING OIL, CONTINENTAL WILL NOT BE ABLE TO RETIRE ITS COMPENSATION BONDS AT AN EARLIER DATE THAN THE STIPULATED REPAYMENT SCHEDULE. CONTINENTAL IS CONSIDERING DISCOUNTING

THE BONDS, AND THE NEGOTIABILITY ASPECT OF THE BONDS IS IMPORTANT
TO THE COMPANY.

10. WE UNDERSTAND FROM CREOLE THAT THE COMPENSATION BONDS WILL
BE FULLY NEGOTIABLE, TAX FREE AND REDEEMED ON SOMEWHAT MORE
FAVORABLE TERMS THAN CONTINENTAL INDICATES (SEPTTEL). END COMMENT
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